

Message Text

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SUBJECT: SITUATION REPORT, DECEMBER 10

168; (B) LONDON 19864

1. THE STAGE IS NOW SET FOR THE ANNOUNCEMENT TF THE ECONOMIC PACKAGE THAT HAS BEEN OCCUPYING THE ATTENTION OF THE CABINET FOR ABOUT 3 WEEKS. THE CABINET CONCLUDED ITS EIGHTH AND FINAL MEETING ON THIS SUBJECT LAST NIGHT. DETAILS WILL BE PRESENTED TO THE COMMONS TN DECEMBER 15 BY THE CHANCELLOR OF THE EXCHEQUER.

MEA WHILE PRESS SPECULATION CONTINUES OVER POSSIBLE

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ELEMENTS OF THE PACKAGE. SEVERAL PAPERS REPORT THAT THE

SALE OF 500 MILLION POUNDS OF H.H. GOVERNMENT HELD BRITISH PETROLEUM STOCK (ABOUT A FIFTH OF THE GOVERNMENT'S STAKE IN BP) IS LIKELY TO GO FORWARD, DESPITE THE OPPOSITION OF MANY LABOR MPS (SOME 75 HAVE ALREADY SIGNED A COMMONS MOTION DEPLORING ANY SUCH MOVE). OPPOSITION TO THE SALE MAY HAVE BEEN OVERCOME BY H.M. GOVERNMENT'S APPARENT INTENTION TO INCREASE ITS HOLDINGS OF BP FROM 48 TO 51 PERCENT, ASSURANCES THAT BURMAH OIL'S LEGAL CHALLENGE TO PREVENT H.H. GOVERNMENT FROM SELLING THE 20 PERCENT OF BP, SHARES ACQUIRED FROM BURMAH WILL FAIL, AND THE PREFERENCE AMONG THE CABINET TO SUBSTITUTE PROCEEDS FROM THE BP SALE FOR DEEPER SPENDING CUTS.

ON THE IMF FRONT, BOTH THE TIMES AND GUARDIAN REPORT THAT THE GROUP OF TEN WILL MEET IN PARIS PROBABLY DECEMBER 22 TO MAKE THE 3.9 BILLION DOLLARS REQUESTED BY THE UK AVAILABLE TO THE IMF TO LEND. SINCE THE IMF IS CURRENTLY SHORT OF HARD CURRENCY, THE MONEY IS TO BE SUPPLIED UNDER THE GENERAL AGREEMENT TO BORROW, WITH THE GUARDIAN REPORTING THAT THE U.S. WILL SUPPLY 1.2 BILLION DOLLARS, WEST GERMANY, 1.0 BILLION, JAPAN, 0.725 BILLION, WITH FRANCE, NETHERLANDS, BELGIUM AND SWEDEN ALSO CONTRIBUTING.

2. SIR DEREK EZRA, CHAIRMAN, NATIONAL COAL BOARD, CALLED ON THE NATIONAL UNION OF MINERS YESTERDAY (DEC 9) TO RETURN TO THE NEGOTIATING TABLE TO DISCUSS THEIR CLAIM FOR EARLY RETIREMENT. EZRA'S APPEAL CAME AS THE MINERS WERE COMPLETING THEIR PIT HEAD BALLOTING ON WHETHER TO GIVE THE NUM EXECUTIVE AUTHORITY TO TAKE INDUSTRIAL ACTION, INCLUDING A STRIKE IF NECESSARY, IN SUPPORT OF THE UNION'S CLAIM. THE MINERS VOTE, TO BE ANNOUNCED TOWARDS THE MIDDLE OF NEXT WEEK, IS EXPECTED TO BE SUBSTANTIALLY IN FAVOR OF SUCH AUTHORIZATION. SIR DEREK'S CALL ON THE MINERS TO REOPEN DISCUSSIONS SEEMS TO INDICATE THAT THE NCB IS PREPARED TO IMPROVE ITS OFFER ON EARLY RETIREMENT. CHRISTIAN TYLER, A LABOR WRITER FOR THE "FINANCIAL TIMES" (DECEMBER 10) BELIEVES THAT AN OVERWHELMING VOTE IN THE NEIGHBORHOOD LIMITED OFFICIAL USE

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PERHAPS OF 70 PERCENT COULD STRENGTHEN THE HAND OF EXTREME LEFT-WINGERS ON THE NUM EXECUTIVE TO HOLD OUT FOR MOST OF THE MINERS' CLAIM - AND IN THE PROCESS HELP DESTROY THE SOCIAL CONTRACT BETWEEN THE TUC AND THE GOVERNMENT WHICH THEY HAVE ALWAYS OPPOSED. WE STILL BELIEVE, HOWEVER, THAT A NEGOTIATED COMPROMISE IS POSSIBLE.

3. CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR):
FIGURES FOR NOVEMBER SHOW THAT THE CGBR CONTINUES TO
FALL BELOW ORIGINAL ESTIMATES. THE SHORT-FALL IS
CAUSED BY REVENUES RUNNING 2 PERCENT ABOVE ORIGINAL
ESTIMATES, EXPENDITURES 2 PERCENT BELOW AND HIGHER
LEVELS OF BORROWING ABROAD (NOT INCLUDED IN THE CGBR)
BY NATIONALIZED INDUSTRIES AND LOCAL AUTHORITIES.
NEVERTHELESS, THE PUBLIC SECTOR BORROWING REQUIREMENT
IS STILL LIKELY TO BE ABOUT 11 BILLION POUNDS FOR FY
76, WHILE THE CGBR MAY BE OF THE ORDER OF 7.0 BILLION.

4. FOREIGN EXCHANGE AND FINANCE: THE GILT MARKET WAS
VERY QUIET THURSDAY IN ANTICIPATION OF NEXT WEEK'S
ECONOMIC PACKAGE.

THE FT INDEX OF 30 INDUSTRIALS FELL 5.6 TO 319.4 ON
THE POSSIBILITY OF A LARGE MAJORITY AMONG THE MINERS
IN FAVOR OF INDUSTRIAL ACTION IF THEIR DEMANDS ON EARLY
RETIREMENT ARE NOT MET.

STERLING DECLINED SLIGHTLY THURSDAY TO \$1.6710 FROM
THE PREVIOUS DAY'S CLOSE OF \$1.6715. THO TRADE-
WEIGHTED DEPRECIATION WAS UNCHANGED AT 44.7 PERCENT.
THE POUND OPENED TODAY AT \$1.6700.

ARMSTRONG UNQTE ROBINSON

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